

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 FRB-01

INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 L-02 H-02

PA-02 PRS-01 USIA-15 /110 W
----- 001452

R 211911Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8552

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 02757

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING FEBRUARY 21

BEGIN SUMMARY: PETER SHORE, UK MINISTER OF TRADE ANNOUNCED
TO PARLIAMENT THAT THE GOVERNMENT PLANS TO PROVIDE COST
INFLATION INSURANCE TO EXPORTERS OF CAPITAL GOODS. OVER
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750,000 WORKERS ARE CURRENTLY UNEMPLOYED IN GREAT BRITAIN

(3.3 PERCENT) WITH AS MANY AS 250,000 WORKING SHORTER WORK WEEKS. THE MONEY STOCK, AS MEASURED BY THE NARROWER M1 DEFINITION, INCREASED SHARPLY IN JANUARY, WHILE THE WIDER M3 DEFINITION, SHOWED ONLY A MODEST RISE. GROSS DOMESTIC PRODUCT FELL BY 1 PERCENT DURING THE FOURTH QUARTER OF 1974 AND BY A LIKE AMOUNT FOR THE YEAR AS A WHOLE. UK EXPORTS TO THE MIDDLE EAST ROSE BY 50 PERCENT DURING 1974, WHILE IMPORTS ROSE BY 156 PERCENT. HOWEVER, BRITISH MERCHANTS APPEAR TO BE HAVING DIFFICULTY MAINTAINING THEIR HISTORIC LEVEL OF PENETRATION IN THE OPEC MARKETS.
END SUMMARY

1. EXPORT SUBSIDIES: PETER SHORE, UK MINISTER OF TRADE, ANNOUNCED TO PARLIAMENT THAT THE GOVERNMENT PLANS TO PROVIDE INSURANCE AGAINST COST INFLATION TO EXPORTERS OF CAPITAL GOODS. UNDER THE PROPOSED SCHEME, THE EXPORT CREDITS GUARANTEE DEPARTMENT WILL OFFER INSURANCE WHICH WOULD ENABLE EXPORTERS TO RECOVER 85 PERCENT OF ANY COST INCREASES IN EXCESS OF 10 PERCENT INCURRED UNDER FIXED-PRICE CONTRACTS VALUED AT 2 MILLION POUNDS OR MORE AND INVOLVING MANUFACTURING PERIODS IN EXCESS OF 2 YEARS DURATION. (SEE SEPTEL FOR DETAILS.)

2. UNEMPLOYMENT: UNEMPLOYMENT FIGURES RELEASED THIS WEEK FOR THE FIRST TIME SINCE NOVEMBER, SHOW UNEMPLOYMENT RISING FROM THE NOVEMBER LEVEL OF 2.7 PERCENT TO 3.3 PERCENT IN MID-FEBRUARY 1975. TOTAL UNEMPLOYED WORKERS IN GREAT BRITAIN NOW NUMBER IN EXCESS OF 756,000, AN INCREASE OF 135,000 SINCE NOVEMBER AND APPROXIMATELY 14,000 MORE THAN UNOFFICIAL ESTIMATES MADE DURING JANUARY. THESE FIGURES DO NOT TAKE INTO ACCOUNT THE LARGE NUMBER OF WORKERS CURRENTLY WORKING REDUCED WORK WEEKS. ONE ESTIMATE INDICATES THAT THERE MAY BE AS MANY AS 250,000 CURRENTLY WORKING "SHORT WEEKS." (FORD MOTOR COMPANY ANNOUNCED THIS WEEK THAT A SUBSTANTIAL NUMBER OF ITS PLANT WORKERS WOULD GO ON SHORT WORK WEEKS BEGINNING MARCH 3, BECOMING THE LAST OF THE MAJOR UK AUTO PRODUCERS TO ANNOUNCE PRODUCTION CUTBACKS AND SHORTENED WORK WEEKS.) UNFILLED VACANCIES SHOWED A SUBSTANTIAL REDUCTION IN FEBRUARY COMPARED TO NOVEMBER. THE NUMBER OF VACANCIES NOTI-
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FIED TO UNEMPLOYMENT OFFICES FELL BY NEARLY 30 PERCENT NOVEMBER 1974 TO FEBRUARY 1975.

3. MONEY STOCK: THE UK MONEY STOCK, AS MEASURED BY THE NARROWER M1 DEFINITION, SHOWED A SHARP INCREASE OVER THE PERIOD MID-DECEMBER TO MID-JANUARY, ACCORDING TO FIGURES RELEASED THIS WEEK. IN THE FIVE-WEEK PERIOD ENDING JANUARY 15, M1 ROSE BY SOME 450 MILLION POUNDS AFTER SEASONAL

ADJUSTMENTS, OR ABOUT 3.4 PERCENT (1.7 PERCENT INCREASE
IN THE PREVIOUS PERIOD). ON THE WIDER DEFINITION, M3,
THE INCREASE AMOUNTED TO 0.2 PERCENT IN JANUARY, AFTER AN
INCREASE OF 1.7 PERCENT IN DECEMBER.

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PA-02 PRS-01 USIA-15 /110 W

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R 211911Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8553

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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PASS TREASURY

4. GROSS DOMESTIC PRODUCT: ACCORDING TO PRELIMINARY ESTIMATES, U.K. DOMESTIC OUTPUT FELL BY ONE PERCENT (S.A.) BETWEEN THIRD AND FOURTH QUARTERS OF 1974. FOR THE YEAR AS A WHOLE, OUTPUT WAS DOWN ABOUT ONE PERCENT, WITH THE MAJOR FALL OCCURRING IN THE FIRST QUARTER. FOR THE YEAR AS A WHOLE, THE INDEX OF GROSS DOMESTIC PRODUCT AT 1970 UNCLASSIFIED

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PRICES (S.A., BASED ON OUTPUT) WAS AS FOLLOWS:

1973 - 4TH	110.1
1974 - 1ST	107.0
- 2ND	109.1
- 3RD	110.3
- 4TH (PRELIMINARY)	109.2

5. U.K. TRADE WITH THE MIDDLE EAST: IN 1974, U.K. EXPORTS TO THE MIDDLE EAST ROSE IN EXCESS OF 50 PERCENT OVER THE 1973 LEVEL, WHILE IMPORTS ROSE BY 156 PERCENT (INCLUDING TRADE WITH MANY NON-OIL PRODUCING STATES). OF CONCERN TO THE DEPARTMENT OF TRADE IS THE FACT THAT THE U.K. SHARE OF THE OPEC MARKET FELL FROM 12 PERCENT IN 1972 TO LESS THAN 10 PERCENT IN 1974, INDICATING THAT BRITISH EXPORTERS ARE HAVING A DIFFICULT TIME MAINTAINING THEIR HISTORIC LEVEL OF PENETRATION IN THE REGION. THE FASTEST GROWING MARKETS IN THE MIDDLE EAST (1974 OVER 1973) FOR U.K. EXPORTS WERE: DUBAI AND THE NORTHERN EMIRATES (147 PERCENT); IRAQ (123 PERCENT); AND SAUDI ARABIA (104 PERCENT). IN VALUE TERMS, IRAN WAS THE U.K.'S BIGGEST CUSTOMER IN THE REGION, IMPORTING 274 MILLION POUNDS OF BRITISH GOODS IN 1974. IN PERCENTAGE TERMS, EXPORTS TO IRAN INCREASED BY 62 PERCENT, INCLUDING MOST, IF NOT ALL, OF THE 150 MILLION POUND OIL-FOR-COMMODITIES DEAL NEGOTIATED BY THE GOVERNMENT IN JANUARY 1974.

6. NO IMPORT CONTROLS: FOLLOWING A HIGHLY PUBLICIZED REPORT BY THE CAMBRIDGE ECONOMIC POLICY GROUP WHICH ARGUED THAT IMPORT RESTRICTIONS WERE THE ONLY WAY IN WHICH BRITAIN COULD IMPROVE ITS BALANCE OF PAYMENTS WITHOUT ADDING TO INFLATION AND UNEMPLOYMENT, EDMUND DELL, PAYMASTER GENERAL, FIRMLY STATED AT A COUNCIL MEETING OF THE EEC FINANCE MINISTERS, THAT THE U.K. WAS BOUND BY INTERNATIONAL AGREEMENTS NOT TO RESTRICT IMPORTS AND HAD EVERY INTENTION OF KEEPING THOSE AGREEMENTS. (COMMENT: MR. DELL ALSO STATED THAT THE UK SAW NO NEED TO SET UP NEW INTERNATIONAL RULES ON EXPORTS GOING BEYOND EXISTING ARRANGEMENTS.

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PA-02 PRS-01 USIA-15 /110 W

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R 211911Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8554

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PASS TREASURY

7. EXCHANGE RATE AND GOLD:

	2/13	2/20	CHANGE
EXCHANGE RATE	\$2.3900	\$2.4010	UP \$0.0110
EFFECTIVE DEPRECIATION			
(PERCENT)	21.8	21.8	UNCHANGED
GOLD	\$179.00	\$185.25	UP \$6.25

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8. FORWARD DISCOUNT ON STERLING:

	2/13	2/20	CHANGE
1 MONTH	1.28	1.25	DOWN 0.03
3 MONTHS	3.60	3.80	UP 0.20
6 MONTHS	6.70	6.95	UP 0.25

(ALL FIGURES IN CENTS)

9. EURODOLLAR INTEREST RATES:

	2/13	2/20	CHANGE
1 MONTH	7-1/4	6-11/16	DOWN 9/16
3 MONTHS	7-11/16	7-1/4	DOWN 7/16
6 MONTHS	7-15/16	7-11/16	DOWN 1/4

10. LOCAL AUTHORITY DEPOSIT RATES:

	2/13	2/20	CHANGE
1 MONTH	10-5/8	11-1/16	UP 7/16
3 MONTHS	11-1/4	11-7/16	UP 3/16
6 MONTHS	11-5/16	11-9/16	UP 1/4

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT
10-1/2 PER CENT ON FRIDAY, FEBRUARY 21.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE LAW, UNEMPLOYMENT, ECONOMIC CONDITIONS, FINANCIAL STABILITY, EXPORT INSURANCE, CAPITAL GOODS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON02757
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750062-1008
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750224/aaaaavcz.tel
Line Count: 304
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 12 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 MAY 2003 by MarshK0>; APPROVED <08 JAN 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING FEBRUARY 21 BEGIN SUMMARY: PETER SHORE, UK MINISTER OF TRADE
ANNOUNCED
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006